



FINANCE AND INTERNAL SERVICES DEPARTMENT

Council Budget and Finance Committee Meeting

February 8, 2005
4:00pm
Room 4B, City Hall
777 B Street
Hayward, CA 94541

AGENDA

Public Comments: (Note: For matters not otherwise listed on the agenda. The Committee welcomes your comments under this section but is prohibited by State Law from discussion items not listed on the agenda. Your item will be taken under consideration and referred to staff.)

- 1. Minutes of December 13, 2004 Meeting**
- 2. December 2004 Financial Management Report**
- 3. Next Meeting Date**

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**CITY OF HAYWARD
COUNCIL BUDGET AND FINANCE COMMITTEE**

Minutes of Meeting Held December 13, 2004

Call to Order: The meeting was called to order by Chair, Mayor Roberta Cooper, at 5:00 p.m. in room 4B at City Hall, 777 B Street, Hayward, California.

In Attendance: Committee members – Chair, Mayor Roberta Cooper, Council Member Matt Jimenez, and Council Member Bill Quirk. Staff: City Manager, Jesús Armas, Acting Assistant City Manager, Perry Carter, and Acting Finance Director, Diane Lewis.

Public Comments:

No Public Comments.

Minutes of December 13, 2004:

Acting Finance Director reviewed General Fund financial results for 2003-04 and discussed both revenues and expenditures for 2003-04. Council Member Bill Quirk had a question regarding capital expenditures which Acting Finance Director answered. Council Member Jimenez asked how Real Property Transfer Tax was collected. Acting Finance Director responded that the tax is collected by the County and then remitted to the City.

The City Manager reviewed Schedule B and discussed with the Committee the various reserves and designations.

The Acting Finance Director then reviewed the October 2004 Financial Management Report with the Committee. The Acting Finance Director noted that revenues are down primarily due to withholds by the State on Sales Tax and the Vehicle License Fee. These revenues will catch up with State backfill payments in December. The Acting Finance Director indicated that at this point the General Fund is on target for 2004-05. Additional information regarding 2004-05 revenues will be available once State payments are made in December.

Finally, the Committee agreed to hold the next meeting on January 25, 2005, at 4:00 pm.

CITY OF HAYWARD
DEPARTMENT OF FINANCE AND INTERNAL SERVICES

January 18, 2004

TO: City Manager

FROM: Acting Director of Finance and Internal Services

SUBJECT: December 31, 2004 Financial Management Report

GENERAL

Attached is the December 31, 2004 Financial Management Report. The report consists of the General Fund Revenue By Source statement and the Operating Expenditures By Department statement, both for the General Fund. These two statements track revenue and expenditures for the General Fund and are for the period July 1, 2004 through December 31, 2004.

GENERAL FUND-REVENUES AND EXPENDITURES

REVENUES

The General Fund Revenue by Source statement shows actual revenues through December 31, 2003 and 2004. Also, the adjusted budget for 2004-05 is presented along with an Estimated Actual 2004-05 column. The Estimated Actual is left blank at this point and will be used as we approach year-end and more refined estimates can be made.

It should be noted that the General Fund Revenue by Source Statement has been modified in December to reflect the receipt of "backfill" payments from the State for Sales Tax and VLF revenues. Even though the backfill payments for these two revenue sources are technically property tax, they have been shown under the Sales Tax and VLF categories in order to retain some level of comparability.

At this point it may be useful to recount briefly the origin of the backfill payments and the potential impact to the City's financial statements. The passage of several state wide propositions in 2004 and the California 2004-05 Budget gave rise to three major revenue issues for local government. More specifically, .25% of the local sales tax was diverted to the State to repay Economic Recovery Bonds. The loss of revenue at the local level is made up in the State budget by the payment of additional property tax revenues or "backfill" payments to local agencies. The State budget also set the VLF at .65% of assessed value as opposed to the previous 2%, ultimately resulting in a revenue shortfall at the local level. The State budget makes up this shortfall through VLF backfill payments to local agencies in the form of property tax dollars. Finally, during the 2004-05 State Budget process the State shifted \$1.3 billion from local property tax revenues to schools for fiscal year 2004-05 and 2005-06 (\$1.3 billion each year). The impact of this shift to Hayward is a reduction to Property Tax revenue of \$1.9 million for 2004-05.

The impact to local jurisdictions of all of the above is one of revenue reduction, timing and differences in growth rates as projected by the State and local jurisdictions. In theory, local

agencies will receive all of the revenue that would have been received “pre backfill”, however, the payment schedule by the State will be different. For example, under prior law, sales tax was received at the local level on a monthly basis with four quarterly “clean up” payments. Now, a significant portion will be received on the same schedule as property tax on December and April of each year. This will also be true of VLF backfill payments. In addition, the State will make growth assumptions for the fiscal year in order to compute the backfill payments. To the extent these estimates and local estimates differ, revenue collections will depart from budget during the year. Until some experience has been gained under the new remittance schedule, comparisons between years will be problematic. To the extent possible these timing differences are addressed in the following discussions of individual revenue sources

Overall revenues are approximately 13% or \$4.9 million higher than they were the same time last year. For the six months ended December 31, 2003 revenues stood at \$36.8 million and for the six months ended December 31, 2004 revenues are at \$41.7 million.

Through December Sales Tax revenue is up approximately \$1.6 million when compared to the prior year. A portion of this revenue increase reflects growth over the prior year and is expected. For example, actual sales tax revenue for 2003-04 was \$25.4 million and staff is estimating \$26.5 million for 2004-05, an increase of \$1.1 million. In terms of growth staff’s 2004-05 estimate of \$26.5 million represents a growth rate of approximately 4.5% over 2003-04 actual revenue. The “backfill” payment made by the State is based on a growth factor of 4.8% which results in a sales tax revenue budget of \$26.7 million. Consequently, the State, for purposes of making the backfill payments has estimated a growth factor slightly higher than the City’s. To the extent that the State’s estimate is too high, then the April 2005 backfill payment will be adjusted downward. Accordingly, Sales Tax revenue is expected to meet budget for 2004-05.

Motor Vehicle In-lieu is another revenue category showing a significant increase when compared to the same period last year. In the current year revenue totaled \$5.1 million, an increase of \$3.3 million over the prior year. This increase in the current year is due, for the most part, to the restoration of the Motor Vehicle In-Lieu backfill eliminated in the first half of 2003-04. In the prior year the City received 29% of its revenue for this revenue category in the first half of the year. In the current year the City received 60% of its budgeted revenue for this category in the first half of the year. This revenue category is expected to meet or exceed budget.

Property Tax, a primary revenue source for the City, is approximately \$545,000 lower when compared to Property Tax for the same period last year. This decrease is due to the State required payment for 2004-05 of \$1.95 million, with \$975,000 due in December. The good news is that Property Tax revenue continues to show strong growth. After adjusting for the State “take away” payment Property Tax grew by approximately \$430,000 through December. This revenue source is expected to meet budget for 2004-05.

With respect to the other revenues Real Property Transfer Tax is above last year’s level by \$670,000. While timing significantly affects this revenue source from month to month, it is currently at 63% of budget and may exceed budget projections. Franchises have increased above last year’s level by \$415,000. This is caused by an increase of \$272,000 in the Sewer and Water franchise payment and an increase of \$143,000 in the payment from Waste Water Inc. This increase is anticipated and this revenue category is expected to meet budget.

Other revenue categories showing modest increases are All Other From Agencies up \$227,000 and Fees and Charges up \$84,000. All Other From Agencies increase is caused by the timing of Grants and Intergovernmental Reimbursement. A payment of \$129,000 was received for the Homeland Security

Grant in the current year and no payment was received in the prior year. A payment of \$166,666 was received from the Hayward Unified School District in the current year and \$83,333 was received in the prior year for the same period. This payment is for a School Resource Officer. HUSD chose to make one payment in 2004-05. The increase for Fees and Charges is caused primarily from an increase in Plan Check Fees of \$69,000. These revenue sources are expected to meet budget. The revenue category showing a small increase is Emergency Facilities Tax up \$45,000.

All Other Taxes is down by \$233,000 when compared to the prior year. This decrease is due to a \$283,000 reduction in the Interim Supplemental Improvement Tax. Licenses and Permits are down over the prior year by \$349,000 due primarily to a decrease in Building related permits. Timing plays a big part in revenue categories related to construction and staff will watch closely to see if the reduction is permanent. Other Revenues are down by \$201,000. This reduction is caused by the timing of reimbursements and is expected to meet budget. Revenue categories showing modest decreases are Interest and Rents down \$99,000 and Fines and Forfeitures are down by \$85,000.

EXPENDITURES

The last page of the Operating Expenditures by Department provides a quick overview of the General Fund at December 31, 2004. This page shows that the General Fund is at 51% of budget with six months of the current fiscal year completed. Compared to a time elapsed percentage of 50% this places the General Fund on target for 2004-05. A review of General Fund expenditures for this same period last year shows that the General Fund was at 48% of budget.

In terms of major categories, Employee Services was at 49% of budget in 2003-04 and is at 52% of budget for the current year. The percentage increase in the current year is due to one time retirement payoffs that will not be repeating through the remainder of the year. For 2004-05 there are 26 pay periods with 13 incurred through December. Compared to a time elapsed percentage of 50% this places the general fund on target for 2004-05. Staff will continue to monitor Employee Services closely in the up coming months.

The category Maintenance and Utilities was at 45% of budget in 2003-04 and is at 48% of budget for the current year, still on target for the year. Supplies and Services was at 41% in 2003-04, and is at 43% of budget for the current year. Given the City's historical expenditure patterns, this category is on target for 2004-05. Net Interdepartmental Charges and Credits are also in line with expected results and are on target for 2004-05.

Capital expense items have not been researched for additional information. This is due to the fact that capital items can be acquired at any time during the year and applying an elapsed time test is not always meaningful.

One department had expenditures in excess of the 10% established for further review. The Police Department is 78% of budget for Maintenance and Utilities. This is due to the timing of maintenance payments related to the Police Department's radio system.

The December 31, 2004 Financial Management Report is attached for your review.